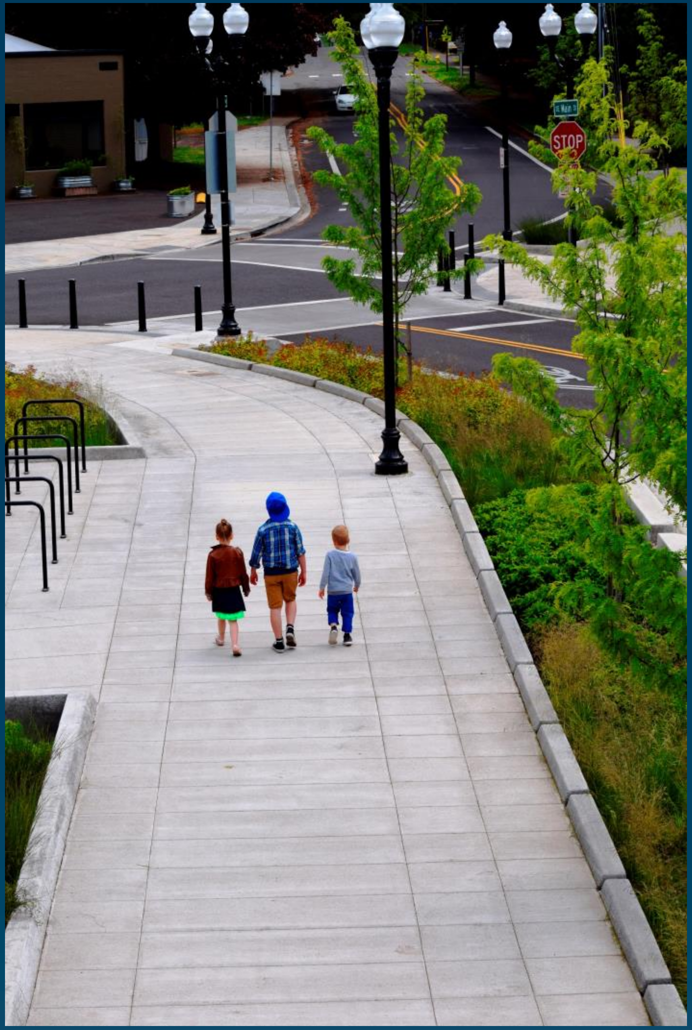
Transportation Bonding Proposal 2/6/18

CITY OF MILWAUKIE

Introductions

Bond Counsel
Greg Blonde

Financial Advisor
John Peterson



Purpose of Presentation

- Present Bonding Proposal
  - Debt issuance scenarios
    - Phase 1
    - Phase 2
    - Phase 3
  - Recommendation
  - Rate Analysis
  - Policy considerations

1-3

Phase 1

Scenario 1	Scenario 2
Bond Proceeds	Bond Proceeds
$19,394,376	$19,390,042
Net Interest	Net Interest
$9,234,421	$9,343,703
TIC 3.817%	TIC 3.834%

4-6 Phase 2

Scenario 1	Scenario 2
Bond Proceeds	Bond Proceeds
$14,593,432	$19,042,534
Net Interest	Net Interest
$15,731,500	$19,665,566
TIC 4.730%	TIC 4.732%

7-9 Phase 3

Scenario 1	Scenario 2
Bond Proceeds	Bond Proceeds
$16,087,319	$11,236,528
Net Interest	Net Interest
$9,607,080	$5,876,996
TIC 4.475%	TIC 4.391%

Recommendation

Direct staff to proceed in pursuance of the 1st phase of bonding maximizing the 1st issuance by front loading contract design to take advantage of the current low rates.

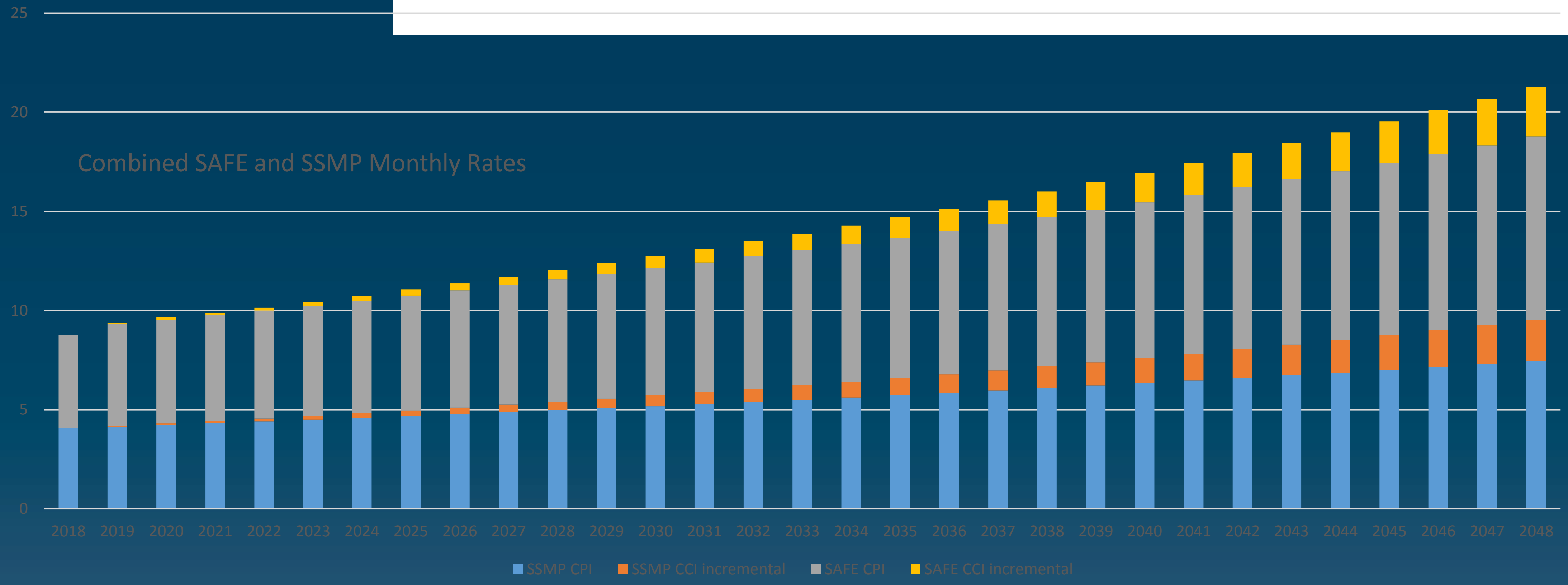
This would change the draft provided by limiting the number of series to 1 assuming that staff would bring back future proposals to Council for consideration. Additionally staff will bring back further analysis on the corresponding not to exceed aggregate principal based on the additional acceleration noted above.

Note This means that projects will be designed in phase 1 that wont be constructed until either cashflow is sufficient to cover debt service and construction costs or phase 2 of bonding is approved.

Rate Analysis

Revenue net of debt service from 2018 through 2048

	Growth	SAFE		SSMP		NEW State Gas Tax	Existing Capital State Gas Tax	Net Funds Available for maintenance and other projects	
Inflation Rate		2.04%	2.89%	2.04%	2.89%			2.04%	2.89%
S1	0%	(11,880,091)	(6,008,246)	11,328,611	11,489,957	2,164,531	15,000,000	16,613,051	22,646,241
S1	1%	(4,160,777)	3,161,470	14,642,486	14,831,436			27,646,240	35,157,437
S2	0%	(12,413,405)	(6,594,093)	11,442,173	11,603,519	2,148,992	15,000,000	16,177,761	22,158,418
S2	1%	(4,694,090)	2,575,624	14,756,048	14,944,998			27,210,950	34,669,614



Allowable costs
The program is structured to maintain compliance with the 3 funding sources. (SAFE, SSMP and Gas Tax)

Ie A path not constructed in the street right of way wouldn’t be eligible for State Gas Tax funds however all paths proposed are specified in the SAFE program and therefore are allowable costs of that program.

Capital Improvement Investment Policy Considerations

7. The City will utilize "pay-as-you-go" funding for capital improvement expenditures considered recurring, operating or maintenance in nature whenever possible. The City may also utilize "pay-as-you-go" funding for capital improvements when current revenues and adequate fund balances are available or when issuing debt would adversely affect the City's credit rating or debt terms are unfavorable relative to the benefits derived from the capital improvement.

8. The City will consider the use of debt financing for capital projects and equipment under the following circumstances:
   a. When the use of debt will result in total project cost savings that exceed borrowing costs.
   b. When the project's useful life will exceed the terms of the financing.
   c. When resources are deemed sufficient and reliable to service the long-term debt.
   d. When market conditions present favorable interest rates for City financing.
   e. When the issuance of debt will not adversely affect the City's credit rating.

As written I don't believe we are required to comply with all circumstances. These would be considered new improvements and resources available are not sufficient given the desired construction period of 9 years.

Capital Improvement Investment Policy 8

8a – When the use of debt will result in total project costs savings that exceed borrowing costs.

8b – When the projects useful life will exceed the terms of the financing.

8c – resources are deemed sufficient to repay debt

8d – market conditions present favorable interest rates

8e – not adversely affect credit rating

8a – Per the conservative projections in the scenarios presented this consideration is not achieved.

However this is based on assumptions actual results could vary.

8b- The average useful life of the projects in the bonding proposal is estimated to be 45 years. *(based on50 years for concrete paths, 30 years for asphalt)*

8c- per rate analysis when all 3 funding sources are considered there is sufficient resources to service debt.

8d – interest rates are favorable

8e – in consideration of 8c and per our financial advisor our rating should not be negatively affected.

Bond Rating

Per our financial advisor an increased rating of Aa1 would only benefit us by 5-10 basis points in interest rate in the current market. Given the City’s low debt levels, the savings from being Aa1 could easily be lower than the economic cost of holding that much cash instead of investing in the community.

Sortable Table Key	Moody's
Highest grade credit	Aaa
Very high grade credit	Aa1, Aa2, Aa3
High grade credit	A1, A2, A3
Good credit grade	Baa1, Baa2, Baa3, Baa4
Speculative grade credit	Ba1, Ba2, Ba3
Very speculative credit	B1, B2, B3
Substantial risks - In default	Caa1, Caa2, Caa3, Ca

The City of Milwaukie currently has a GO and FF&C rating of Aa2.

Exhibit 2
Municipal Rating Distribution, 1970-2000

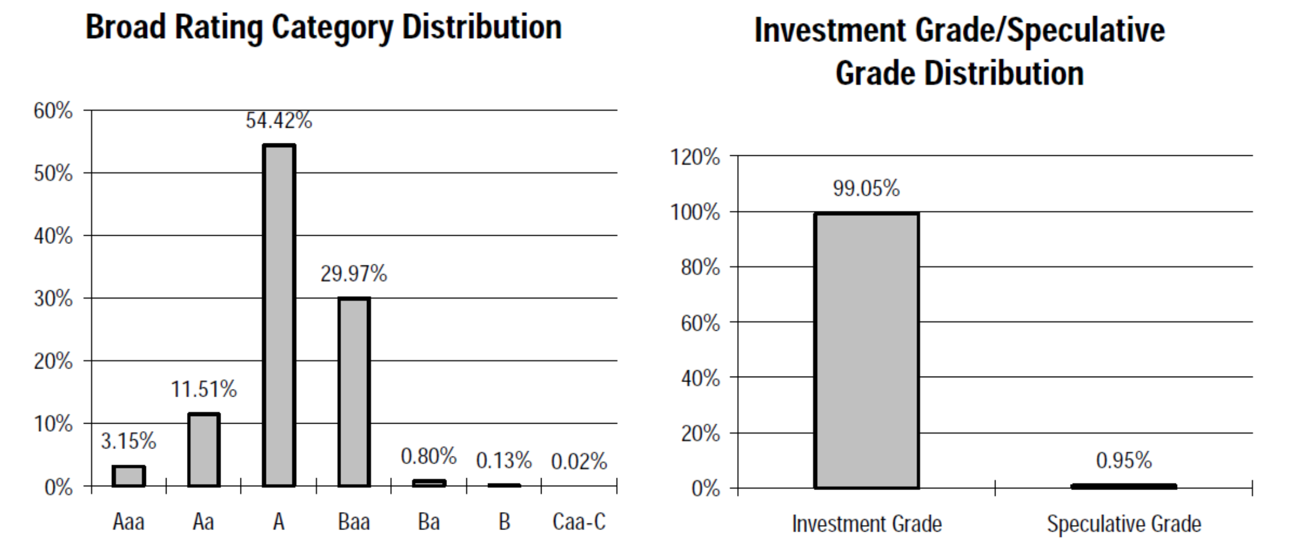


Exhibit 12

Medians by Rating - US Cities (Population < 50,000)

Selected Indicators	Aaa	Aa	A	Baa	Ba
Total Full Value ($000)	$5,504,682	$1,829,448	$540,981	$661,882	$609,827
Full Value Per Capita	$222,372	$108,389	$62,897	$50,352	$39,432
Fund Balance as % of Revenues	39.6%	35.3%	31.4%	19.8%	12.8%
Cash Balance as % of Revenues	43.5%	39.2%	33.5%	17.3%	6.3%
Net Direct Debt / Full Value (%)	0.7%	1.0%	1.7%	2.4%	4.0%
Net Direct Debt / Operating Revenues (x)	0.82	0.88	1.05	1.24	1.56
Moody's - Adjusted Net Pension Liability (3-Year Average) to Full Value (%)	1.1%	1.3%	1.9%	2.9%	4.3%
Moody's - Adjusted Net Pension Liability (3-Year Average) to Revenues (x)	1.43	1.33	1.31	1.52	1.60
Population (2010 Census)	23,292	16,424	7,921	10,125	14,945
Available Fund Balance ($000s)	$19,020	$7,314	$2,364	$1,494	$397
Net Cash Balance ($000s)	$20,871	$8,025	$2,539	$1,538	$736
Operating Revenues ($000s)	$41,742	$20,187	$7,310	$9,233	$15,398
Net Direct Debt ($000s)	$30,182	$18,097	$8,304	$10,338	$24,032
3-Year Average Adjusted Net Pension Liability ($000s)	$51,105	$25,290	$9,870	$22,686	$26,142

Source: Moody's Investors Service

Adding 50 Mil in debt would increase our current debt by 262%. However FF&C obligations are excluded from the ORS 287.004 limit as we are pledging all non-restricted resources vs increasing the tax burden. That said, the burden is carried by constituents imposed through user fees through SAFE and SSMP charges.

Legal debt margin calculation for fiscal year ended June 30, 2017:

Total property real market value	$ 2,804,851,953
	3%
Debt maximum limitation (3% of total property real market value)[1]	84,145,559
Amount of debt applicable to debt limit:	
Total debt	19,074,245
Less debt excluded from debt limit:	
Oregon SELP and SPWF loans	(549,904)
PERS UAL bonds	(3,555,000)
Full Faith and Credit Obligation bonds	(800,000)
Oregon DEQ loan	(1,350,200)
Premiums	(694,141)
Less funds applicable to the payment of principal in the debt service fund per ORS 287.004	-
Net amount of debt applicable to limit	12,125,000
Legal debt margin - amount available for future indebtedness	$ 72,020,559
Percentage of City's indebtedness to total allowed	14.41%

Per our Financial Advisor as long as fees are sufficient to cover debt service, the debt issuance should not negatively affect our bond rating.

Loan Business Oregon would like to refund(refinance):
Original Loan amount 738,000
Interest rate 4-4.375%
Original loan had a 25 year maturity schedule
Total interest to be paid over the life of the loan is $461,744
Future interest per current amortization schedule $176,740
Therefore interest paid to date is $285,004
Principal amount outstanding 12/1/17 (now) $507,533

The loan was issued to complete frontage improvements related to the North Main Village development.